

ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE

February 25, 2016

1:10 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Shelley Hughes, Co-Chair
Representative Charisse Millett
Representative Louise Stutes
Representative Dan Ortiz

MEMBERS ABSENT

Representative Benjamin Nageak
Representative Matt Claman

COMMITTEE CALENDAR

HOUSE BILL NO. 249

"An Act requiring the electronic submission of a tax return or report with the Department of Revenue; relating to the motor fuel tax; and providing for an effective date."

- MOVED CSHB 249(TRA) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 249

SHORT TITLE: ELECTRONIC TAX RETURNS & MOTOR FUEL TAX

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/19/16	(H)	READ THE FIRST TIME - REFERRALS
01/19/16	(H)	TRA, FIN
01/28/16	(H)	TRA AT 2:00 PM CAPITOL 17
01/28/16	(H)	Heard & Held
01/28/16	(H)	MINUTE(TRA)
02/04/16	(H)	TRA AT 1:00 PM CAPITOL 17
02/04/16	(H)	Heard & Held
02/04/16	(H)	MINUTE(TRA)
02/06/16	(H)	TRA AT 1:00 PM CAPITOL 17
02/06/16	(H)	-- Continued from 2/4/16 --
02/16/16	(H)	TRA AT 1:00 PM CAPITOL 17
02/16/16	(H)	-- MEETING CANCELED --
02/18/16	(H)	TRA AT 1:00 PM CAPITOL 17
02/18/16	(H)	Heard & Held

02/18/16 (H) MINUTE(TRA)
02/23/16 (H) TRA AT 1:00 PM CAPITOL 17
02/23/16 (H) -- MEETING CANCELED --
02/25/16 (H) TRA AT 1:00 PM CAPITOL 17

WITNESS REGISTER

NICK D'ANDREA, Director of Government Affairs
United Parcel Service, Inc. (UPS) Airlines
(No address provided)

POSITION STATEMENT: Testified in opposition to HB 249.

DANA DEBEL, Director of Government Affairs
Delta Air Lines, Inc. (Delta)
(No address provided)

POSITION STATEMENT: Testified in opposition to HB 249.

ACTION NARRATIVE

[1:10:18 PM](#)

CO-CHAIR NEAL FOSTER called the House Transportation Standing Committee meeting to order at 1:10 p.m. Representatives Millet, Ortiz, Stutes, Hughes, and Foster were present at the call to order.

HB 249-ELECTRONIC TAX RETURNS & MOTOR FUEL TAX

[1:10:34 PM](#)

CO-CHAIR FOSTER announced that the only order of business would be HOUSE BILL NO. 249, "An Act requiring the electronic submission of a tax return or report with the Department of Revenue; relating to the motor fuel tax; and providing for an effective date."

[Before the committee was the proposed committee substitute (CS) for HB 249, Version E.]

CO-CHAIR FOSTER announced that the committee would be working from the proposed committee substitute (CS) for HB 249, Version 29-GH2912\N, Nauman, 2/24/16. He explained that the only change from Version E to Version N, is that the House Transportation Standing Committee now is listed.

[The committee treated Version N, labeled 29-GH2912\N, Nauman, 2/24/16, as the adopted working draft.]

[1:11:16 PM](#)

REPRESENTATIVE STUTES moved to adopt [Amendment 1], labeled 29-GH2912\E.1, Nauman, 2/23/16, which read:

Page 2, line 23:

Delete "of all descriptions"

Insert "operating for

(i) the purpose of commercial fishing is five cents a gallon; in this sub-subparagraph, "commercial fishing" has the meaning given in AS 16.05.940;

(ii) a purpose other than the purpose described in (i) of this subparagraph"

Page 3, lines 30 - 31:

Delete "OF ALL DESCRIPTIONS"

Insert "OPERATING FOR

(i) THE PURPOSE OF COMMERCIAL FISHING IS FIVE CENTS A GALLON; IN THIS SUB-SUBPARAGRAPH, "COMMERCIAL FISHING" HAS THE MEANING GIVEN IN AS 16.05.940;

(ii) A PURPOSE OTHER THAN THE PURPOSE DESCRIBED IN (i) OF THIS SUBPARAGRAPH"

Page 5, line 6:

Delete "of all descriptions"

Insert "operating for

(i) the purpose of commercial fishing is five cents a gallon; in this sub-subparagraph, "commercial fishing" has the meaning given in AS 16.05.940;

(ii) a purpose other than the purpose described in (i) of this subparagraph"

Page 6, lines 14 - 15:

Delete "OF ALL DESCRIPTIONS"

Insert "OPERATING FOR

(i) THE PURPOSE OF COMMERCIAL FISHING IS FIVE CENTS A GALLON; IN THIS SUB-SUBPARAGRAPH, "COMMERCIAL FISHING" HAS THE MEANING GIVEN IN AS 16.05.940;

(ii) A PURPOSE OTHER THAN THE PURPOSE DESCRIBED IN (i) OF THIS SUBPARAGRAPH"

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CO-CHAIR FOSTER objected for purposes of discussion.

REPRESENTATIVE STUTES stated that the proposed amendment creates an exemption for marine fuel tax and exempts commercial fisherman from the proposed increase. She related that in the governor's fisheries tax proposal, the commercial fishing fleet would experience a 1 percent increase. She stated that the current fish prices are about one third of their value from 15 years ago, and explained that there's a glut on the fish market, the dollar is very strong, and the foreign market is very poor for Alaskan seafood. Consequently it makes being in the fisheries business cost prohibitive. She noted that commercial fishermen were the only user group that had stepped up to the plate and indicate a willingness to accept some level of taxation in order to help with Alaska's budget deficit, but she suggested that the proposed tax seems high. The cumulative effects of both the fish and motor fuel tax proposals could prove to be unbearable for fishermen.

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REPRESENTATIVE MILLETT stated support for Amendment 1, and disclosed her son's involvement in commercial fishing.

REPRESENTATIVE STUTES pointed out that a Commercial Fisheries Entry Commission (CFEC) card would be required to demonstrate qualification for the exemption. She noted that "commercial fisher" as defined by state statute is referenced in the amendment.

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REPRESENTATIVE HUGHES stated opposition to the amendment in that the exemption is limited to a single industry and other industries may be able to make similar argument. Additionally, she said, the proposed fisheries tax legislation may or may not be passed.

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CO-CHAIR FOSTER withdrew his objection to the motion to adopt Amendment 1, and asked if there was any further objection.

CO-CHAIR HUGHES objected.

A roll call vote was taken. Representatives Ortiz, Millet, Stutes, and Foster voted in favor of the motion to adopt [Amendment 1]. Representative Hughes voted against it. Therefore, Amendment 1 was adopted by a vote of 4-1.

[1:16:00 PM](#)

CO-CHAIR HUGHES moved to adopt [Amendment 2], labeled 29-GH2912\E.2, Nauman, 2/23/16, which read:

Page 9, line 15:

Delete "emergency vehicle, as defined in AS 11.56.825"

Insert "aircraft, watercraft, or ground transportation vehicle operated by an entity that provides an emergency or ambulance service"

CO-CHAIR FOSTER objected for purposes of discussion.

CO-CHAIR HUGHES stated that [Amendment 2] is a technical fix that would adjust language on page 9, line 15, of HB 249, to ensure that air, water, and ground emergency vehicles would be covered under the exemption.

CO-CHAIR FOSTER removed his objection. There being no further objection, Amendment 2 was adopted.

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NICK D'ANDREA, Director of Government Affairs, United Parcel Service, Inc. (UPS) Airlines, related that UPS appreciates the long-standing history that the company has had with the state of Alaska, where the company has 1,100 employees, and where 489 of its pilots are domiciled. He explained that Alaska has had an important role in UPS' global reach; not only does the company deliver to thousands of customers daily, but also Anchorage serves as UPS' gateway to the Asia-Pacific region. Mr. D'Andrea indicated that Anchorage is also the training location for UPS' MD-11 and 747 fleets. He stated that UPS is located in Alaska because of the excellent business environment, and has paid \$7.3 million in landing fees and \$6 million in taxes.

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MR. D'ANDREA stated that UPS' concern with a fuel tax increase is two-fold. First, if the Trans-Pacific Partnership is passed

and ratified by Congress, there will be a significant increase in the volume of cargo being moved between Asia and the United States. When air cargo companies are looking for places to locate, the number one consideration is the fuel tax rate. Behind labor cost, fuel is the most expensive budget item, and he clarified that at times fuel costs can exceed the cost of labor. He stated that it's imperative for Alaska to make sure that it's "in the game," and a tax increase could result in some carriers bypassing the region by purchasing longer-range aircraft; an alternative which at least one cargo carrier has reportedly exercised. Secondly, if cargo carriers move away from Alaska, fewer dollars will be available to support the airport systems. He suggested that this would be a "double whammy" in that the state and the airports would be simultaneously losing revenue. From an industry perspective, Alaska has an opportunity to grow the aviation industry in the state, but an increase in the aviation fuel tax could thwart that effort.

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CO-CHAIR HUGHES asked where Alaska currently ranks in terms of jet fuel pricing, and whether that would change should the proposed legislation pass.

MR. D'ANDREA replied that Alaska is currently ranked 35th in jet fuel prices, but if the tax were implemented the state would be ranked 15th, thus moving from the bottom quartile to the top quartile. He offered his understanding that the same sentiments have been submitted to the committee by other carriers, including: the Cargo Airline Association, Delta Airlines, and Airlines for America.

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REPRESENTATIVE ORTIZ asked what percentage of UPS' overall operating costs are fuel-related.

MR. D'ANDREA offered to provide further information.

[1:21:50 PM](#)

DANA DEBEL, Director of Government Affairs, Delta Air Lines, Inc. (Delta), explained that similar to UPS, Delta's highest operating cost alternates between labor and fuel. She shared that over the last five to six years, Delta has spent somewhere between \$10 billion and \$12 billion annually on fuel and that

the only larger domestic purchaser is the combined branches of the U.S. military. She explained that fuel is a "huge, huge" driver for Delta. The labor costs only exceeded fuel costs this year due to the dip in fuel prices. Outside of that exception, fuel has been Delta's number one operating cost for the previous five to six years.

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MR. D'ANDREA noted that UPS pays the state \$130 million dollars annually for fuel.

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REPRESENTATIVE STUTES sought clarification that the aforementioned annual fuel cost of \$10-\$12 billion described airlines as a whole, not just Delta.

MS. DEBEL replied that the figure was Delta's annual fuel cost on its profit and loss statement, not that of the airline industry as a whole.

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MS. DEBEL began a brief PowerPoint presentation entitled "Delta Air Lines in Alaska." She stated that Delta currently operates 19 round-trip flights per day in Alaska, in five markets: Fairbanks, Anchorage, Juneau, Sitka, and Ketchikan. She noted that the Sitka and Ketchikan flights operate seasonally. Delta employs 161 people in the state, which includes people employed by the company's connecting carriers. The company's annual expenditure on goods and services in Alaska, excluding payroll and fuel, is \$19.1 million, which includes approximately \$1.4 million in landing fees; an ever increasing amount. She stated that Delta considers itself to be a substantial contributor to the state.

MS. DEBEL stated that, of the five markets in Alaska, the most robust is the flight service for Anchorage connecting to five markets in the Lower 48, which are: once daily to Atlanta, Georgia; three times daily to Minneapolis, Minnesota; once daily to Portland, Oregon; once daily to Salt Lake City, Utah; and seven times daily to Seattle, Washington. She noted that a seventh round trip to Seattle and a third round trip to Minneapolis were added in the last year and that Delta "up-gauged" the size of the aircraft for the Minneapolis service. She explained that these actions are positive, as Delta up-

gauges when there is more demand than it can fill with its current service. She stated that Delta has also up-gauged service between Minneapolis and Fairbanks in the last year. Additionally, Juneau has recently received year-round service, however, Sitka and Ketchikan flights remain seasonal.

MS. DEBEL said Delta has been growing in Alaska and likes the state as a market because there is potential for growth; however, she stated that an increase in fuel tax would be another cost barrier and cause for concern. She stated that the proposed increase in fuel tax would catapult Alaska up in the rank of fuel taxes, and people at Delta and the airline industry in general pay very close attention to tax changes, especially in the case of a three-fold increase. She expressed concern that the proposed tax increase would have the most significant effects on companies like Delta and UPS, but that the revenues would primarily be spent at airports where neither company operates. She indicated that Delta's preferred method of addressing the needs of airports is through landing fees, rental rates, and concession fees because they are all assessed at the airport level, the money is reinvested in the airport where the fee is levied, it is spread amongst the users of the airports, and there is greater transparency regarding where the money goes. She offered that Delta is willing to invest in necessary capital and infrastructure needs and, this past year, supported over \$3 million in new capital projects at the Ted Stevens Anchorage International Airport. She stated that Delta's preference is to contribute these funds at the local level, because the company's goal is to continue to grow in Alaska and provide service as efficiently and economically as possible.

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CO-CHAIR FOSTER asked whether UPS and Delta were members of the Alaska Aviation Advisory Board or if they had any input into the board's process, which developed the aviation fuel tax recommendation provided to the governor.

MS. DEBEL responded no.

MR. D'ANDREA responded no, and indicated he only recently learned about the advisory board.

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CO-CHAIR FOSTER opened public testimony, after ascertaining no one further wished to testify, closed public testimony.

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REPRESENTATIVE MILLETT stated her understanding that great care was utilized in vetting the governor's proposed motor fuel tax bill, but stated that it would be difficult for her to increase any tax at this time. She stated that she had agreed to move the bill to the finance committee, not because she supports the proposal, but because of the continued process that this bill would undergo when all of the tax bills were in front of the House Finance Committee as a full package. She stated her belief that while the legislature was still trimming the budget and identifying areas for government efficiencies, it would be hasty to pass a motor fuel tax effecting industry, commercial fisherman, pilots, mariners, commuters, and residents if islands, like Kodiak, where the only means of transportation to or from requires some type of hydrocarbon. She said she respects the governor for introducing the individual pieces of legislation and for providing the opportunity to hear from industry and the public via the committee process. She reiterated that despite her disapproval of HB 249, she supports it being passed to the House Finance Committee where it can be considered with the rest of the finance packages that the governor has offered, including the "sin" taxes, fishing tax, and the plethora of others that have been introduced by the administration, emphasizing that she is not endorsing a fuel tax by letting HB 249 pass out of committee. Alaska is experiencing tough times; therefore, HB 249 has to be a part of the conversation, she finished.

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CO-CHAIR FOSTER stated that he would like to echo Representative Millet's and Representative Hughes' comments that the job of the committee is to hear the proposal and start the public discussion, so that the public could have the opportunity to provide testimony. He explained that the House Finance Committee could further modify HB 249 and may or may not pass it out of that committee. He stated that three changes had been made by the House Transportation Standing Committee: the addition of a sunset provision, the addition of an \$85 per barrel oil price trigger, and the exemption of emergency vehicles. He noted that the House Finance Committee could make substantive changes.

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CO-CHAIR HUGHES explained that it is important for the public to be aware that revenue bills such as HB 249 do not have to be assigned to a standing committee, but the legislature thought it was important to not send HB 249 directly to the House Finance Committee, in part because of the number of bills in that committee and in part to give the public a chance to begin to consider it and provide input. She stated that the House Transportation Standing Committee has received testimony from many people, and she surmised that individuals who have been listening to the proceedings could probably tell that she, like Representative Millet, has reservations about HB 249. She opined that now is not a good time to put the payment of government services on all Alaskans. She said eventually any tax increases that are implemented would be visited upon consumers and that further reductions in the budget are necessary. She noted that the CS inserts language to ensure that the revenues produced cannot be used for administrative purposes and must be directed to costs associated with the operation of infrastructure.

CO-CHAIR HUGHES related that she used to live in rural Alaska, thus, she expressed her understanding of the high cost associated with living there. She explained that although she opposed the amendment offered by Representative Stutes, she also would prefer that commercial fishers not pay the tax. She reemphasized that the focus of the legislature should be on reducing the cost of government, but that the bill should go to the House Finance Committee for discussion of the numerical figures in the bill, as the House Transportation Standing Committee's focus is on policy. She underscored that she does not support the bill in its current form.

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REPRESENTATIVE MILLETT moved to report CSHB 249, Version 29-GH2912\N, Nauman, 2/24/16, as amended, from committee with individual recommendations and the accompanying fiscal note. There being no objection, CSHB 249(TRA) was reported from the House Transportation Standing Committee.

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ADJOURNMENT

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 1:37 p.m.